RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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THE PICTURE: To my mind, the 1996 stock market/economy picture -- I mean the way it plays out -- is going to be totally fascinating. Consider the following: we have a presidential election coming up. We have a man in the White House whose principal talent is campaigning, running for office. We have a president who will do anything, assume any position, say anything, go anywhere -- that will help him get re-elected. And, despite an endless parade of scandals, there is (at this writing) a good chance that he will be re-elected.

I hate to talk about fundamentals before I talk about the stock market, but the fundamentals and the politics are so interesting here that I just can't resist.

The Republican "revolution" -- it's just about over. It's over because the GOP caved in -- they conceded the fairness issue to a demagogue named Bill Clinton. In a campaign punctuated by lies, half-truths, exaggerations and just plain BS, the President carved up the Republicans as if they were a Thanksgiving turkey. In the polls 60% of Americans sided with Clinton on his warnings about Republican cut-backs and most recently about a possible government shut-down. Then on January 24 the GOP threw in the sponge as they sheepishly admitted that their debt-limit threat was a failed strategy. In total retreat, House Speaker Gingrich announced that the Republicans were ready to make a mere "down payment" on balancing the budget. Down payment -- it's just another word for defeat. Wrote the *NY Times*, "Today's move was a clear Republican retreat in the long-running budget war."

But the real defeat has not yet arrived. It will arrive when a wooden, ineffectual Robert Dole is knocked out of the box in the November presidential election. Actually, I thought Dole's future was sealed by the comments which followed Dole's rebuttal of Clinton's State of the Union Address. Wrote the *NY Times*, "Among a flock of Republican figures, consultants and even a few voters, the consensus was that Dole got swamped by the more telegenic Clinton." Stated Roger Linn, Republican chairman of the county that contains Sioux City, "It was an absolute disaster. By God, he (Dole) had a week or two to prepare and he couldn't even read it. If this is the beginning of the campaign, Clinton could quit right now, because he's got it." **Russell comment:** Prophetic words -- Roger Linn's got it right. Actually, I believe Dole is coming across so poorly that at this point the Republicans should seriously consider dumping Dole and running Forbes as their candidate.

ECONOMICS: Two-thirds of the US economy runs on consumer buying. It's clear that today the consumer is up to his eye-balls in debt and loaded with every type and variety of merchandise. It's equally clear that US consumers are not savers. But why should they be? The US tax system discourages saving while encouraging consumption -- buy a house, buy a car, buy a trip to Vegas, spend, spend, spend. But no tree grows to the sky, not even the American consumer's infatuation with spending.

In the meantime, retail stores have been doing poorly, a reflection of the fact that the American consumer is about tapped out. (S&P's Retail Group Index dropped almost 8% on the single day of Jan. 8, a day when mighty Wal Mart smashed down to a new low of 19 1/8.) The consumer slump will almost surely impact on capital spending. Let's face it, if sales nationwide are going into the tank, then capital spending to buy new equipment for expanding capacity or improving production is going to slow. The fact is that manufacturing capacity is now rising faster than demand for that capacity.

Jan. 19 DJIA 5184.68; PTI 4425; A-D Ratio -1.56
Jan. 26 DJIA 5271.75; PTI 4435; A-D Ratio -1.36
Dow Yield: 2.24%; Dow Price/Earnings: 16.5
Dow 200-day MA: 4740; Dow 30-day MA: 5136
Dow Times Book Value: 4.03; PTI 89-day MA: 4350
Percentage of Undervalued Blue-chips: 4%
Gold 200-day MA: 388.47; Gold-PTI: 673

New York's fashion leader, Barneys, shocked the retail and fashion world by filing for Chapter 11. And smaller retail stores are closing daily. But undoubtedly the phenomenon that is frightening consumers most is the lay-offs, the never-ending parade of pink-slips. Listen to this from the Jan. 18 *Liscio Report* [(201)746-2332]: "The new year is not yet three weeks old and already CompuAdd, Apple, Federal Mogul, Mobil, Knight-Ridder, Philip Morris, Merrill Lynch, Bausch & Lomb, All-State, and Alcoa have all announced lay-offs."

As far as exports are concerned, the world picture will be of little help. Slow-downs, unemployment and near-recession conditions are the story across Europe while Japan struggles with its most difficult economic conditions in decades.

Economic Weakness Stirs Gloom in Europe

10.6% Unemployment Provokes Talk of a 'Growth Recession'

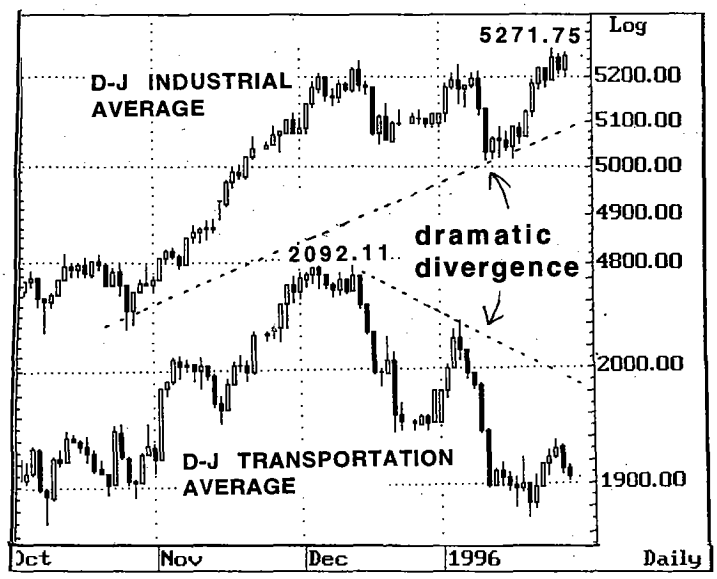
By NATHANIEL C. NASH

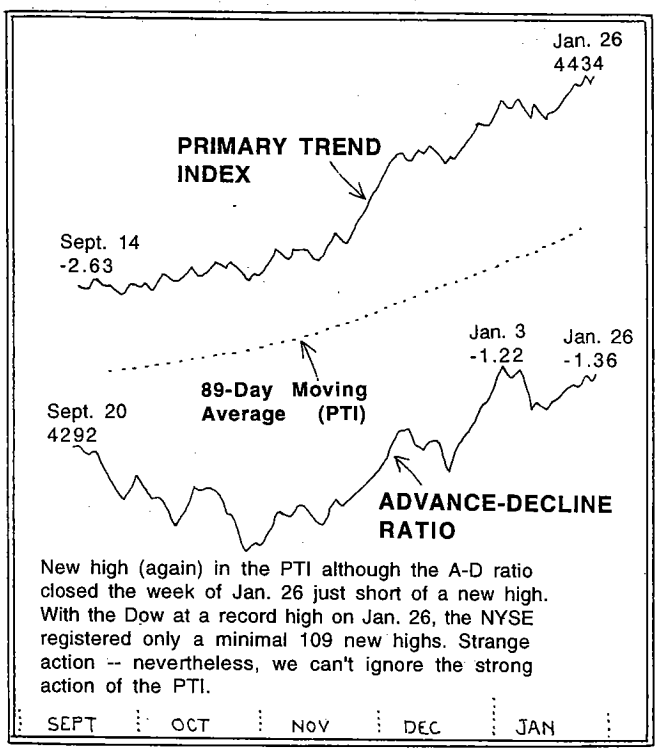
FRANKFURT, Jan. 17 — Grim economic reports that include soar- the treaty on European union that sets the terms for adoption of a single currency and central bank.

Skeptics say that plans to introduce the first stage of a single cur- helpless in combating what almost everyone agrees is the big problem — 17.5 million unemployed, an average rate of 10.6 percent.

"Not only will growth not be

The following is from *13D Research* [(203)792-1300]: "Personal debt now exceeds $1 trillion and represents 95% of total disposable income. By the end of 1995 nearly two-thirds of all debt payments covered interest, while the other third paid down principal -- the reverse of debt service in 1970 . . . Economist David Bostian's Macro Economic Index, which has accurately forecast every post-





New high (again) in the PTI although the A-D ratio closed the week of Jan. 26 just short of a new high. With the Dow at a record high on Jan. 26, the NYSE registered only a minimal 109 new highs. Strange action -- nevertheless, we can't ignore the strong action of the PTI.

WWII recession, has declined steadily over the past 18 months to a current reading of minus 25 -- an early warning of recession ahead . . . With its line item veto power over federal appropriations, the Republican-led Congress is expected to reduce year-on-year federal spending -- the reverse of traditional election year pump priming."

Fascinating and thought-provoking, but let's face it -- all the above are mere fundamentals and facts. And remember, *all facts are history.* Do we have something that can tell us about the future? Well yes, we do have something -- it's called the stock market.

THE MARKET: And here we also have what I feel is an unusually exciting picture. It's exciting because this year's market action will tell us a lot about who becomes our next president as well as what we face in the economy. If the market turns down this year, it's obviously going to hurt (possibly kill) Clinton's chance of re-election. On the other hand, a continuation of the bull market will be of tremendous help to Clinton. It would also give America's debt-strapped consumers breathing space.

Aside from politics, the emergence of a primary bear market or even a severe correction (with an accompanying recession) would be almost unthinkable in an election year. Could it happen? At this point, we might remember that old Wall Street adage which tells us that "the market can do anything." And if the market can do anything, so can the economy.

However, let's not lose sight of the fact that this is still a confirmed bull market. And my faithful Primary Trend Index (see page 2 chart) is continuing to hit new highs. So the question -- what would constitute a clear, new "green light" for the bull market? For an "all clear" Dow Theory bull signal the two D-J Averages would have to better their highs.

On January 24 the Dow surged to a *solo* new high of **5242.84.** The new Dow high found the Transportation Average still 160 points below its December record peak of **2092.11.** Nevertheless, on the same day the PTI recorded a new bull market high, as did the bellwether D-J Utility Average. Interestingly, many of the major composite stock averages are lagging. But it's still a bull market, and you have to wonder whether the PTI isn't telling the story better than any other index or indicator.

Those Transports: As subscribers know, I have continually drawn attention to the poor action of the D-J Transportation Average. The Transports are the Average that reflects the nation's capabilities in the area of *sales, shipping and travel.* The lagging (declining) Transportation Average, in this case, suggested to me that sales were not coming through. This was confirmed by the facts, such as activity at the retail level, which by any standard has been just plain rotten.

About interest rates: two items to remember: (1) Roughly 30% of the stocks on the NYSE are interest-rate sensitive. The recent trend has been to lower interest rates. This has been a major plus for the majority of stocks and, therefore, for the advance-decline ratio. (2) The most recent stock market and retail weakness can hardly have been lost on the Fed. And I would guess that the Fed is becoming rather nervous about the situation. This applies particularly to Alan Greenspan who is up for re-appointment as Fed chief in March. Pressure on the Fed has to translate to pressure for lower interest rates (but then there's that rising gold).

Primary Trend: So here again we have a very interesting situation. In a primary bull market, declining interest rates are a decided plus. But in a primary bear market, declining interest rates don't necessarily help the stock market. After all, during the 1930s T-bill rates collapsed to below 1% and that didn't turn the tide.

So let me say it again, and again, and again -- the *PRIMARY TREND is the most powerful force in the market.* Declining rates will spur a bull market, but they will not necessarily help a bear market.

Further Transport Note: Since its high of **2092.11** recorded on December 5, the Transportation Average has declined by over 10%. This is not a good sign. Since the 1960s there have been a number of "over 10%" Transport declines including 1957, 1962, 1966, 1969, 1972, 1974, 1978, 1979, 1984, 1987 and 1990. In nine of these instances the general market slumped badly (1979 was the exception). This time -- in 1996? Well, we'll see, won't we?

INVESTMENT POSITION: The bull remains in the box. However, I'm beginning to think that the "gravy train" in the stock market is drawing to a close. What I mean is that the time for the easy money has passed. You can see it in the sudden collapses in a multitude of stocks -- stocks such as Walmart, Microsoft, Netscape, Alcoa, MMM, Intel, the whole retail group, the tech group, etc. In other words, for every 10 stocks that climb higher it looks to me as though there are five or more that are heading lower.

Declining interest rates have obviously been spurring that one-third of the market that is interest-rate sensitive. But the item that continues to really bother me is the action of the Transportation Average. The Transports have declined so far that it's now difficult for me to envision them turning around and rallying to new highs. In the meantime, the Industrial Average appears to be the "cover up" Average, the "masking" Average, the Average that keeps everyone feeling good because "the Dow continues to spurt to new highs."

Sensing difficulties in the US market, many analysts and advisory services are now recommending a move to foreign stocks and bonds. They may be on the right track, but of course here we get into a potential currency problem. Many experts are predicting a much stronger dollar. If so, if they are correct, then US holders of foreign stocks or bonds (denominated in a foreign currency) take a chance on losing even if their stocks or bonds advance.

As it gets more difficult to sell stocks, brokers are turning to the more exotic items -- annuities, foreign stocks and bonds, foreign closed-end funds, commodities, you name it. Along these lines, this cartoonist seems to have his pen on the pulse of the market.

FOR THE TIMID INVESTOR, I RECOMMEND OUR "PERPETUAL CERTIFICATES OF DEPOSIT."
THEY EARN THE HIGHEST POSSIBLE INTEREST. THE ONLY TRADE-OFF IS THAT YOU CAN NEVER WITHDRAW IT.
WHY DON'T I JUST FLING MY MONEY OUT A WINDOW?
AH, YOU'VE HEARD OF OUR "FLYING DEBENTURE" PRODUCT?

My advice: Continued caution, and remember, the operative word is -- **income.**

FAMINE: You tell me what this means. I started Dow Theory Letters in December 1958. In order to increase circulation I advertised in *Barron's* and further, I exchanged lists of names with other advisory services. In the "old days" (i.e., 1950s, '60s) there was never any problem with this procedure. But *Barron's* advertising rates rose and rose, and finally it got to the point where an ad in Barron's cost more than any returns I would have received. Consequently, after almost three decades of running a *Barron's* ad every other week, I dropped my *Barron's* ads.

But I continued to send out promotional material every other week. And I never had any problem trading lists of names with other advisories. Ah, but last month for the first time in 38 years the situation changed.

Last month for the first time nobody was willing to exchange lists with me. The exchange-well, after 38 years, seems to have run dry. What does it mean?

To me it means two things: (1) Business is so rotten with most of the advisory services that they are no longer sending out promotional material. (2) Advisory letter readers no longer have the desire *or maybe the money* to buy investment letters. Now true, there is an awful lot of information that one can get free at this time (TV, radio, newspapers, Internet, brokers, etc.). But that doesn't explain the situation as far as I'm concerned. It doesn't explain it because subscriptions and renewals continue to be good here. No, I think number 1 and 2 above are the sad answers to what's happening in the investment advisory business.

Of course, there are two other factors. Many people are now invested only in mutual funds. They therefore believe that they are in "professional hands" and no longer have to worry about their investments, nor do they have to read an advisory Letter. Second, a bull market makes geniuses of investors, and geniuses don't need outside information.

Finally, I believe that America's consumers are now being squeezed in a major way via high levels of debt and high living costs. On top of everything else, there are those frightening pink slips. So consumers just don't want to spend -- which is why retail sales are poor and why none of my letter-writing friends want to exchange expired and trial subscriber lists with me. I feel that it's ominous.

PHILOSOPHY: What's the difference between capital and money? I've drilled the following into my kids' heads for years. When you've got $50,000, that's money. You can run out and buy a car with it or put a down payment on a house with it or spend a chunk of it on a great vacation in Paris. But $50,000 is not capital. It was capital in 1940, but not today.

When you've got $5 million today -- that's capital. You can buy a T-bond with that $5 million and you'll get interest of $300,000 a year or $5,070 a week. In other words, $5 million is real "living money." When I say living money, I mean $5 million is money that you can live on -- and live very well. So when you have accumulated 5 million bucks and you have enough brains to hang onto it you're talking serious stuff, you're talking enough money so that you're free to do whatever you want (at least within reason).

Does that mean that $50,000 doesn't mean anything? Absolutely not. That amount represents a good start, and it should be a base for accumulation. Keep adding to it, keep compounding, *avoid major losses,* and you're on your way.

Which is one of the reasons I hate gambling. Gambling implies (to me) a complete disregard for money. Gambling means that you're willing to throw hard-earned after-tax money down the drain -- all in the hope of getting something without working for it. Gambling is the opposite of accumulation, it's the opposite of respect for work and savings. When I see someone gambling I know that that person doesn't understand the power of compounding, and that person doesn't understand the importance of either money or capital.

To me, the advantage of capital is not that it allows me to do what I want and buy what I want. Personally, I live quite frugally. No, to me the advantage of capital is that it allows you to be free. It allows you to say "No" to what you don't like. It allows you to live the way you like, and it allows you to live where you like. Freedom, there's nothing like it. It may not be fair, it may not be democratic -- but money buys freedom.

NOTES & QUOTES: To start with, I want to thank all my subscribers for their continuing devotion to these Letters. Subscriptions are actually running ahead of last year, which, from what I gather, is not exactly typical of what's been happening in the advisory business. As for me, I work hard and I try to pack as much information, thinking and experience into each Letter as I possibly can. My biggest problem is that I always have more to say than I can fit into six pages (and, of course, there's also a limit to how much I can ask my subscribers to read).

* *

OK, on to the notes: As I see it, *everything has changed.* Clinton and the Democrats have sent the Republicans scurrying off, confused and defeated, their tails wedged between their legs. The sad facts: there will be only a token move towards balancing the budget. The "Contract With America" is history. Little has been accomplished. Only one government department was closed. Nobody even mentions the Contract any longer. So the Republicans are left with only the haltingly inadequate voice of Robert Dole and the chastised voice of Speaker Gingrich (who, by the way, the public no longer takes seriously). The fact is that the GOP has no thundering orator, no inspiring leader, no one who is capable of taking on "The Great Hypocrite," Bill Clinton.

It is said that "Each generation gets the president that it deserves." But I wonder, what have I done to deserve Clinton (oh yes, I forgot, I'm not of this generation)?

* *

Europe: I keep coming back to this: Europe as a whole is near recession. And that brings up problems. Almost every European nation is (1) running a deficit; (2) struggling with high unemployment; (3) attempting to cut back on welfare and entitlements; (4) dealing with downsizing corporations; (5) lowering interest rates, and (6) pumping up its money supply.

Increasing the money supply and lowering interest rates are inflationary, but items 1 through 4 are deflationary. Downsizing by corporations and declining interest rates are both bullish for stocks; thus rising stock markets in Europe are masking economic troubles. How will it all end up -- in a world recession or continuing bull markets? Unfortunately, there's absolutely no way of knowing at this time.

Europe's Export Boom Starts to Falter, Raising Anew the Specter of Recession

By TERENCE ROTH
Staff Reporter of THE WALL STREET JOURNAL
BRUSSELS—Until recently, foreign trade was the last refuge for optimists

Europe's Fading Trade
Export performance (ratio between growth in export volumes and growth in the target export

* *

Flat: It's starting -- Clinton, the Democrats, and yes, various misguided presidential contenders are now attacking the flat tax

idea. Clinton attacks it with his favorite weapon, rich vs. poor, class warfare. Republican presidential contenders attack it out of sheer ignorance. The attacks are based on the premise that the flat tax is not progressive, that under the flat tax all tax-payers will pay the same rate. Steve Forbes, who is anchoring his platform on a straight 17% flat tax, is the recipient of most of the invectives. But if he's smart (and he damn sure is), Forbes will stick with the flat tax. I believe the flat tax has tremendous appeal for a majority of Americans, who for years, have lived under the current insane, abominable, tax system.

The argument against the flat tax -- that it's not progressive -- is spurious on the face of it. The federal tax should never have become an income-redistributor, it should be an efficient way for the government to raise the cash it needs. Doesn't anyone ever question the ethics of progressivity? Why should a man who has made a million dollars pay more in percentages than a sewer worker who makes $45,000 a year? After all, does a vagrant get the same medical treatment as a successful lawyer? Why should a rich man be able to eat at New York's Four Seasons when a poor man can't get in the front door? It's the way of the world. If a man is smart enough or industrious enough to amass a few million dollars, why should he be penalized for his success by a government that decides that "the rich must pay through the nose for their success?" The fact is that the tax system as it stands today is basically used by politicians to garner votes. No politician today would have the guts to come out and boldly question the whole premise of progressivity.

Consider this: the classic motto of socialism is *"From each according to his ability and to each according to his needs."* That is ultimate progressivity, and the US has never totally embraced socialism. So why embrace socialism in the tax system?

An article by Eric Alterman in the current *Nation* magazine notes that our current tax code is an incredible 6 1/2 times as long as the King James version of the Bible. Furthermore, it costs 24 cents to enforce compliance for every dollar that the IRS raises. The code is a total nightmare for the average tax-paying citizen, but on the other hand it's a bonanza for the "tax industry," which includes tax lawyers, accountants, corporate financial officers and planners and yes, many Congressmen and Senators.

On Jan. 18 a Republican commission advocated scrapping the whole tax code and replacing it with the flat tax. They advocated dumping the estate tax. They also asked for a two-thirds majority vote of Congress before raising taxes.

From an editorial in the Jan. 13 *Economist:* "Middle class resistance is the greatest threat to the Republican's tax-reform efforts. To win over the average voter, the temptation to leave intact middle-class benefits such as the indefensible tax break for home-mortgage interest will be enormous. But such concessions would undermine the very principles on which the case for tax reform is based. If America truly wants a new way to pay, it should send its entire tax code -- every last scrap -- to the bottom of the harbor." **Russell comment:** Amen.

* *

The latest *USA Today* poll states that for the first time in 30 years of polling, a majority (51%) have an unfavorable opinion of a First Lady. I keep wondering if the whole negative picture of both Clintons won't affect the election. Consider (1) the White House travel office firings; (2) Madison Guarantee S&L; (3) Genifer Flowers; (4) Paula Jones; (5) Whitewater; (6) Castle Grande; (7) Hillary's scandalous gains in the commodity market; (8) Vincent Foster's questionable "suicide;" (9) the stonewalling of the Clintons. Many past presidents have had to deal with scandals, but I can't remember a presidential pair that ever had to deal with such a running parade of scandals. On top of that, both Clintons have been accused of being outright liars (with good cause). Can the American public re-elect Clinton after all this? Ugh, the sad answer is that I wouldn't doubt it.

From Linda Chavez's column in the Jan. 17 *USA Today:* ""The entire Washington press corps and scores of politicians seem obsessed with finding out whether Hillary Clinton is telling the truth. But deception isn't the heart of the scandals swirling around the first lady -- greed is. The Clinton's greed, as well as that of their friends, is the root of the problems afflicting the first couple, from Whitewater to Hillary's dubious commodity trades to the firing of the White House travel office personnel. This is an old-fashioned story about graft and corruption -- the kind that has been the undoing of many a politician."

* *

Charles Biderman [*Market Trim Tabs,* (707)525-1001], who keeps track of these statistics, notes that money is continuing to pour into the mutual funds at the enormous rate of $12 billion a month. **Russell comment:** In view of this, it's surprising that the broad market indices have failed to rise to new highs. Clearly, somebody has been selling, selling enough to overcome all the massive buying by the funds.

* *

With the resignation of Fed Vice-Chairman Blinder (who it was widely rumored wanted the Fed chief's job), Wall Street believes that Greenspan is almost guaranteed re-appointment in March. Still, Clinton keeps Greenspan swinging in the wind.

* *

The following is from the Jan. 15 London *Financial Times:* "Personal computers are hard to like. When they fail to work as expected, they are irritating, counter-intuitive, and a tremendous waste of time . . . That's probably the view that most people take of their computers. But it's by no means universal. A small minority of computers, the 10% or so that are Apple Macintoshes, arouse real enthusiasm, and sometimes even love, in their owners. The Mac user can be spotted a mile off. He or she will talk about the neatness of the computer's design; about it's intuitiveness and ease of use; and about the way in which you can switch on a Mac and start to work right away without wasting time learning about computers or software."

Russell comment: Count me a died-in-the-wool Mac fan. I've loved the Mac from the first day I bought one. I still love my Mac although I've now graduated to a Power Mac. To me, one of the great tragedies of the whole computer world is that Apple has fallen so far behind when it should have been the undisputed leader. Now for every Mac sold 10 non-Macs (IBM compatibles) are sold. Furthermore, since Mac represents only 10% of the market, software writers write for the non-Macs; that's where the volume is; that's where the money is. In the final analysis, Apple had the best product with the worst management. **Late Item:** Sun Microsystems is rumored to buy Apple. I think it will happen, and I'm all for it.

* *

The Russians are in a frenzy about the new US hundred dollar bills. The dollar has become Russia's second national currency. Central banks estimate that the Russians hold $15 to $20 billion in US cash, a figure that actually is greater than the comparable $12 billion Russians hold in rubles. The Ruskies hold more US cash than any nation outside the US and 75% of what they hold is in US hundred dollar bills. One leading Russian retail bank has already placed orders for shipments of the new bills, but it is feared that many stores in Russia will refuse to accept the old bills. In fact, already some places are refusing to take in the old bills, and an arbitrage is building by vendors who discount the old bills.

* *

Jeff Vinik, manager of the huge Magellan Fund commented favorably to the press on technology stocks. But it turned out that Jeff was selling a lot of his tech stocks even as he praised them. I guess that's not illegal, but it borders on being unethical. Now Fidelity states that its managers are not allowed to comment on individual stocks.

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The big news in retailing in January is not good news -- it's that Barneys has filed for Chapter 11. The basic story -- too much debt for not enough sales. Barneys is suing its Japanese backers, and the suit promises to be a juicy eye-opener. I've been to the old NYC Barneys (run by grandpa Barney Pressman) many times, and by the old store I mean the Seventh Avenue and 17th Street Barneys (we NYC oldsters remember the famous Barneys radio ads). The old Barneys was where you could buy a good suit for a juicy discount, no frills, no nonsense. Then Barneys enlarged the store and went upscale. The new 17th Street store was beautiful,

super-modern and minimalist. Then Barneys got really, really ambitious -- they moved to uptown Madison Avenue. I thought the new store was spectacular, but I also thought it was intimidating to most people. The clerks was rather aloof, the clothes were all avant -- black and gray (although, ironically, this year the big trend was *color*). Barneys opened other stores outside NYC. I've been to both the Costa Mesa and the Beverly Hills Barneys -- same story, black and gray, and snooty. So today -- bankruptcy, although the Pressmans insist they are still in good shape. At any rate, it looks like it's going to be a tough struggle for Barneys and the Pressman boys. Old grandpa Barney Pressman must be rolling in his grave. Grandpa liked volume, and low, low overhead.

* *

I know a lot of people who "won't have TV in the house." They feel TV is lowbrow entertainment. I disagree. There's an increasing amount of very fine TV available. Some of the channels that I like are Discovery (terrific channel), Arts & Entertainment (outstanding), CNN, HBO, and even a lot of E (yep, I like the Fashion File show). Last week A&E presented nightly programs on biographies of the great generals. The program on Israel's Moshe Dayan was fabulous. The wild life programs on Discovery -- I love them. Now my satellite company has added the History channel and the Travel channel. They're both fascinating and educational. Then there was PBS' marvelous showing of Sam Shephard's play, "True West," the show that launched John Malkovich's career. And how could you miss that great Western that premiered on TV, "Lonesome Dove." "NYPD Blue" and "Law & Order," they're both better than most big-money films. So don't tell me TV is for low-brows -- listen, if you don't watch TV, you're missing an awful lot of what's going on.

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Thoughts: Only 15% of US workers are now engaged in manufacturing. The rest are in service or information businesses. That's supposed to be inspiring, but I think it's ominous. It means to me that an ever-increasing amount of manufacturing is being done overseas . . . China is the world's most prolific producer of movies and also the biggest audience for movies. Last year China had 2.5 billion admissions to movies, twice the number in the US. China is finally dropping a few of the barriers to US movies. Last year five American movies were shown in China, among them, Forrest Gump . . . The hamburger war is raging in California with Whoppers and Jumbo Jacks and Big Macs all at 99 cents or below. The word is that the US fast food market is near saturation . . . We receive a new Victoria's Secret catalogue here about every week or so. (Who needs Playboy?) I've never seen such a blitz of catalogue selling. But Victoria must be doing something right -- sales are over $2 billion a year (Victoria is owned by the Limited) . . . By the way, judging from the ads in the newspapers, sexy lingerie must be the biggest seller in the nation next to the cigarettes and soft drinks . . . Despite all the warnings against smoking, 25% of Americans still smoke. Do you remember that sardonic old saying, "Anyone can quit smoking, but it takes a real man to face cancer." That alone should be enough to make you toss out your last pack . . . Wanta lose weight? No pasta or starches at night (substitute veggies and a little meat, preferably chicken). You have to have starches? Have 'em at lunch. Also, I find that cold cereal even with non-fat milk puts on weight. For breakfast, switch to Egg Beaters on Pritikin toast or on pita bread (Egg Beaters are yolk-less eggs but they're delicious) . . . Now they tell us that red wine or probably any alcoholic drink (just one glass a day) is good for your heart. They discovered it by studying the French, who live on a high cholesterol diet, drink lots of red wine, and surprise -- have a low incidence of heart attacks . . . The *New York Times*' Sunday (Jan. 21) Travel section features the wonders of a vacation in La Jolla. Now New Yorkers know what I discovered 34 years ago (only I didn't vacation here, I moved here) . . . AIDS is sweeping Asia and Africa and India. One problem, in many Asian nations prostitution is a way of life, but the governments refuse to admit it. Therefore, these same governments scandalously refuse to publicize or issue warnings about AIDS. In Thailand, for instance, half of all men under 20 have visited a prostitute within the last year . . . In some Asian red light districts, 50% of the prostitutes test positive for HIV . . . Demi Moore is asking $12 million a film; now it's rumored that Sandra Bullock's agent is trying to get $20 million for Sandra. No wonder film makers are groggy; the average major pic now costs $55 million to produce and market. And the industry is flooding the nation with new films. As the industry now stands, blockbusters have to make up for the dogs -- and there just aren't enough blockbusters . . . Censors on the Internet; will we ever get the censors out of our lives? The only subjects I would censor are child porno and "snuff films" (people actually being murdered on film) . . . I'm becoming increasingly disillusioned with Senator Robert Dole. On the subject of the flat tax he states that he wants to study it. Study it -- what's he been doing for the last five years? No, he doesn't want to study it, he wants to gauge which way the wind is blowing (he must be taking lessons from Clinton) . . . All the Republicans are now attacking "filthy-rich" Steve Forbes, so you know Forbes must be doing something right. By the way, Dole is also a millionaire.

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Why the pervasive pessimism that's now enveloping the US? Writes economist Robert Samuelson in a Jan. 22 column: "Americans are fearful. Only a fifth of us believe that life for our children will be better than it is for us. What explains this pervasive pessimism, I think, is a wrenching psychological transition from what I call an 'entitlement society' to a post-entitlement society. In the years after World War II we came to expect things -- to feel entitled to them as a matter of right -- that Americans had never expected before, and that were, in fact, quite unrealistic. We are now having to come to terms with the impossibility of our most extravagant dreams, and it's a disillusioning process."

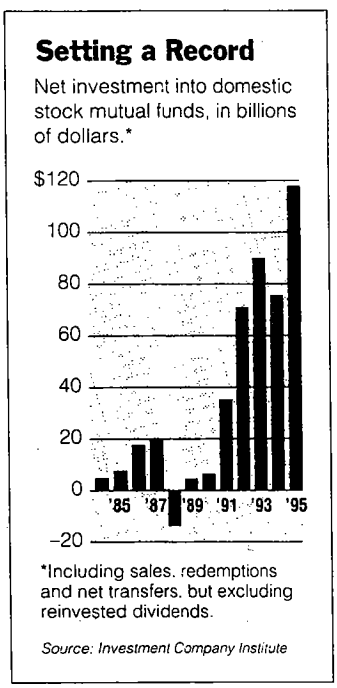
Flood of Cash to Mutual Funds Helped to Fuel '95 Bull Market

Stocks Now Dominate Net Worth of Americans

By FLOYD NORRIS

Lured by an unprecedented bull market, and with aging baby boomers growing more concerned about retirement, stock mutual funds are taking in more money than ever before. And that money in turn is group of funds. "It looks like it will take more than a couple of bad days to rattle mutual fund investors."

That should come as no surprise. The run of the stock market since 1988, as it recovered from the 1987



The New York Times

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It's wild and it's woolly, but the money just keeps pouring in. I'm talking about the ocean of cash that weekly floods into the mutual funds. Nothing like this has happened in all market history; public participation today, it's absolutely enormous. For all 1995 investors put $118 billion in funds that primarily deal with US stocks. That brings the amount invested in American stocks to the staggering total of $1.07 trillion. Which means that stocks and mutual funds have now replaced real estate as the largest segment of net worth in US households. Put it this way -- the American public is up to its ying-yang in equities. That's great in a bull market; it will be a disaster in the next bear market.

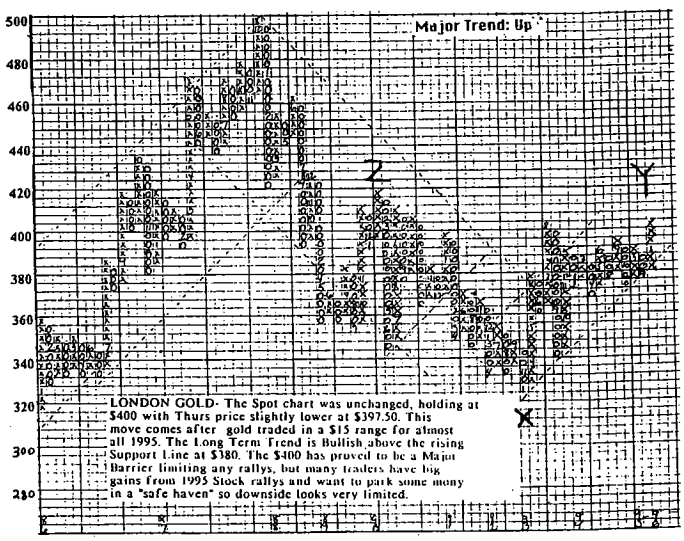
In my opinion, it's the bull market and the massive public participation in the bull market that has given US consumers the courage to borrow and buy to the hilt -- until consumers are now literally "bought up." At the same time US savings levels are scrapping the bottom. Remember, the Dow hasn't had as much as a 10% correction in the last five years. Moreover, since the 1987 low, the Dow has recorded a new high in each of the eight years since. The previous record was a six consecutive year stretch.

Human psychology has a habit of being heavily influenced by events of the most recent past. Since the recent past (eight years of it) has been a record of new high after new high, the US public has had bullishness ingrained into its psyche. Never before have we seen the Dow hit new highs eight years in a row. Never before have we seen the public pour into the stock market to this extent. With the Dow rising for eight consecutive years I've got to label this a **"New Era" market.** It's a "this time it's different" market. So if nothing else, dear subscribers, realize that we live in interesting times.

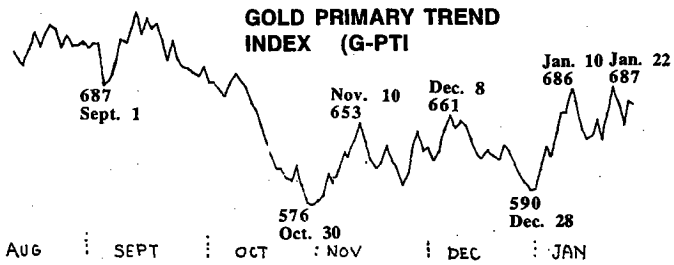
CHART BOOKS: Don't ask me why but in an industry that involves trillions of dollars, nobody else does this. What I'm talking about is chart books of the **D-J Averages** and the all-important **breadth index** (i.e. advance-decline ratio). I've been offering these chart books for decades, and to me they're invaluable. One is a *complete history* of the D-J Averages (all three Averages plus volume and bonds) going back to **1885**, a page for each year. Also important economic and world events are notated. It's in a big three ring binder, a page for each year. It's yours for $135; we pay the postage in the states. The second album covers the Dow and the A-D ratio (daily) going back to 1931. Comments about the action are included in many of the pages (one page for each year). The price is $95, we pay US postage. **For those who own the chart books**, the new 1995 pages will be ready shortly, price is $5 for the page of the Averages and $5 for the new A-D ratio page. Please send your money in now (outside the states there's an extra postage charge of $35 for each book).

GOLD: Check it out -- gold is finally above 400 and actually looking as if it's going to hold above 400. Time for the point & figure chart, a chart that probably more than any other gives us a feel for the big picture (the chart is based on the Second London Fix). This is a 4 x 12 chart meaning that each box = 4 points and only rallies or declines of 12 points or more are shown. The X's denote rallies, the 0s denote declines.

Note that ever since the January 1993 low (X on chart), gold has been building a base. The 404 box was hit in August of '93, following which gold fell all the way back to 344. From there an extended consolidation and build-up took place. Last week gold rose to fill the 404 box (Y on chart). What next? A Second London Fix of 408 or better would represent a clear upside breakout on the chart. This would put gold in line to test the 420 level at point Z. If 420 is bettered -- but, let's not jump the gun, let's just see if it happens. (Chart courtesy of *Chartcraft,* PO Box 2046, New Rochelle, NY 10801.)


Major Trend: Up
500
480
460
440
420
400
380
360
340
320
300
280
Z
Y
X
LONDON GOLD- The Spot chart was unchanged, holding at $400 with Thurs price slightly lower at $397.50. This move comes after gold traded in a $15 range for almost all 1995. The Long Term Trend is Bullish above the rising Support Line at $380. The $400 has proved to be a Major Barrier limiting any rallys, but many traders have big gains from 1995 Stock rallys and want to park some mony in a "safe haven" so downside looks very limited.

My Gold-Primary Trend Index (G-PTI) is looking better. On January 22 the G-PTI hit 687, thereby bettering three preceding peaks. But the G-PTI still "feels" tentative, and after each new peak (study the chart) the G-PTI backs off. Nevertheless, since the October low of 576, the G-PTI has built a structure of successive

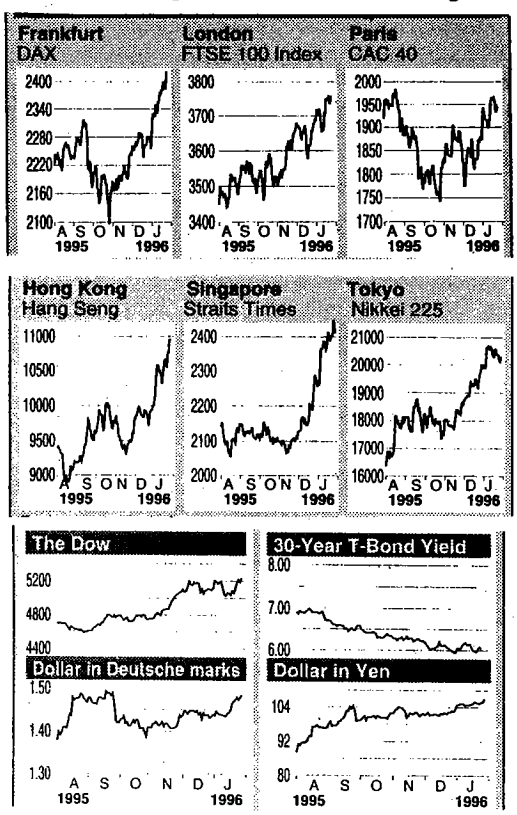


new highs. As long as this continues, the gold picture will appear very constructive.

Why the stronger gold? Some ascribe it to the fear of a budget-impasse-breakdown. What I see is simply a Republican retreat on balancing the budget (which Clinton never wanted to do anyway). So let's face it -- the nation's deficits will continue to build. This, of course, is a plus for gold, since rising deficits ultimately must be monetized. The other factor is just plain supply and demand. The fact is that the world is now using or fabricating or hoarding more gold than is being mined. Gold use in jewelry is hitting records levels. Finally, there is a rising demand for gold from Asia, where inflation is a way of life.

For those who hold no gold shares and would like to jump into the water, I continue to like the Toronto "twins" which deal in royalties from various gold mines. The two are Euro Nevada and Franco Nevada (quoted daily in the Canadian Markets -- Toronto section C of the *Wall Street Journal*). I also like Barrick Gold and Placer Dome. Funds? The top performance in the gold funds was achieved by Midas [(800)400-6432], which was up an amazing 36.7% in last year's blah gold market.

LATE NOTES: On Friday (Jan. 26) the Dow spurted 42 points to a new closing high, but the persistently diverging Transportation Average again closed down. Breadth too was unimpressive and there were only 109 new highs on the NYSE. So it's a very narrow market, led by a rocketing Dow. Keep your eye on the still climbing PTI -- this market will not fall apart until the PTI turns around and lapses into a definite declining trend.



You want to keep up with world markets? For me there's nothing better than the *International Herald Tribune* [(800) 882-2884]. Here's a collection of charts that appear daily in the *Trib*. You can see that this is a global bull market, but the NYSE is the center and the powerhouse. In my opinion, as the Big Board goes, so goes the world.

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